



CDIAC Workshop The ABC's of School Debt Financing

Considerations for School Debt Financing

Role of the Professionals

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Role of the Professionals

 Importance of Financing Team

 Issuer Internal Team

 Issuer Consultants

- ◆ Financial Advisor
- ◆ Bond Counsel
- ◆ Disclosure Counsel
- ◆ Trustee
- ◆ Dissemination Agent

 Third Parties

- ◆ County Treasurer/Auditor
- ◆ Underwriter
- ◆ Underwriter's Counsel
- ◆ Rating



OVERVIEW



IMPORTANCE OF FINANCING TEAM

- ◆ Optimal structuring to accomplish goals
- ◆ Protection from potential legal liability
- ◆ Better market acceptance of debt being sold



PARTICIPANTS

ISSUER INTERNAL TEAM

- ◆ General Counsel
- ◆ Finance Director & Chief Business Official (if different)
- ◆ Project Staff
- ◆ Risk Manager



PARTICIPANTS

ISSUER CONSULTANTS

- ◆ Financial Advisor
- ◆ Bond Counsel
- ◆ Disclosure Counsel
- ◆ Trustee
- ◆ Dissemination Agent
- ◆ Appraiser (Mello-Roos only)
- ◆ Market Absorption Consultant (Mello-Roos only)

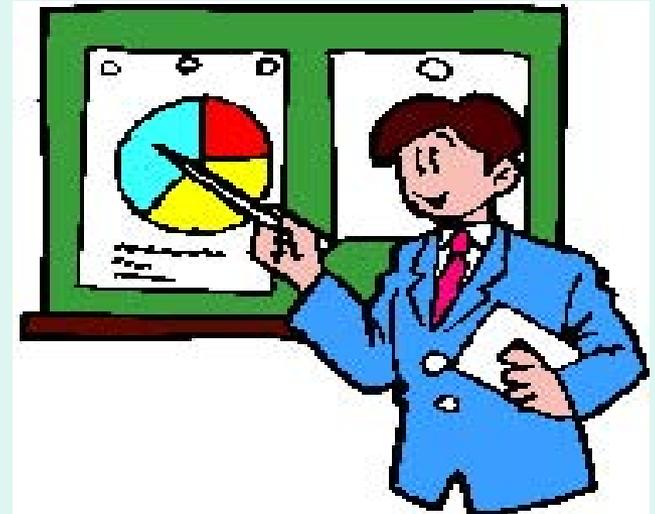


Financial Advisor

Financial Advisor: An independent consultant who advises the issuer on matters related to the bond financing including structure, method of sale, timing, marketing, fairness of pricing, terms and bond ratings. Represents only the interests of the issuer.

Duties:

- Develop overall plan of finance
- Assist with debt authorization
- Explore financing alternatives
- Construct financial model
- Assemble financing team
- Develop issuance timeline
- Evaluate and recommend method of sale
- Prepare bond specifications and terms
- Prepare district personnel and presentation materials for bond rating
- Manage bond sale
- Provide compliance



Financial Advisor



Bond Counsel

Bond Counsel: An attorney who reviews/prepares the legal documents and writes an opinion on the authority to issue bonds, that legal requirements have been met, and the tax-exempt status of interest paid on the bonds.

Duties:

- Issues valid obligation opinion
- Issues tax-exempt opinion
- Prepares legal documents including:
 - Resolution calling for election
 - Ballot proposition
 - Bond issuance resolution
- Advises:
 - State legal constraints
 - Federal tax law
- Prepares transcript of legal proceedings



Bond Counsel



Disclosure Counsel

Disclosure Counsel:

An attorney or law firm retained to ensure that District has fairly disclosed all pertinent facts relating to the offering.

Duties:

- **Provide advice on disclosure obligations**
- **Prepare Official Statement**
- **Prepare Continuing Disclosure Agreement**



Disclosure Counsel



Bond Trustee/Registrar/Paying Agent

Bond Trustee: Usually a bank with trust power which acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract.

Duties:

- Collects payments from Issuer
- Distributes payments to Investors



Registrar:

The person or entity responsible for maintaining records on behalf of the issuer for the purpose of notifying the owners of registered bonds. The paying agent frequently performs this function.

Paying Agent:

The entity responsible for the payment of interest and principal on municipal bonds on behalf of the issuer. The paying agent is usually a bank or trust company, but may be a county treasurer.

**Bond Trustee/
Registrar/
Paying Agent**

Duties:

- Invests Funds
- Disburses Funds



Dissemination Agent

Dissemination Agent:

The Dissemination Agent takes responsibility for filing the Annual Report under the Continuing Disclosure Agreement and filing notices of material events.

Duties:

- **Provides notice to Issuer if report not filed**
- **Files Annual Report**
- **Distributes material event notices**



Dissemination Agent



PARTICIPANTS

THIRD PARTIES

- ◆ County Treasurer/Auditor
- ◆ Underwriter
- ◆ Underwriter's Counsel
- ◆ Rating Agencies
- ◆ Credit Enhancer
- ◆ Land Developer



County Treasurer/Auditor

County Treasurer/Auditor:

The principal duties include the management and investment of County, Schools, and Special District funds, Bond Administration, and the collection of taxes and revenues.

Duties:

- **Holds proceeds of sale of bonds**
 - ❑ **Disburses funds upon Board authorization**
- **Invests bond proceeds**
- **Determines Tax Rates**
 - ❑ **Uses debt service information provided by Issuer (Official Statement)**
- **Prepares Tax Bill and collects taxes**
- **Sends money to Trustee/Paying Agent for payment of bonds**



**County
Treasurer/ Auditor**

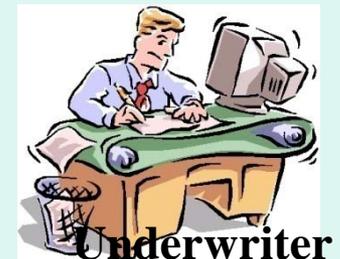


Underwriter

Underwriter: Key function is to buy the new issue of securities from the issuer and resell the bonds to investors.

Duties:

- Offers to buy the bonds from the issuer at specific interest rates
 - ❑ Sells bonds to investors (institutional/retail)
 - ❑ Fee earned is called Underwriter's Spread (Reoffering Price – Purchase Price)
 - ❑ Can advise on structure/terms of financing (negotiated sale)
- Divisions:
 - ❑ Public Finance/Investment Banking
 - Liaison between underwriter and public officials
 - ❑ Underwriting/Trading
 - Prices bonds
 - Syndicate formation
 - Settlement/Clearing
 - ❑ Sales
 - Retail/Institutional





Underwriter's Counsel

Underwriter's Counsel: A law firm retained by the Underwriter to represent the Underwriter's interests.

Duties:

- Drafts Bond Purchase Agreement
- Reviews and comments on Official Statement
- Reviews and comments on Continuing Disclosure Agreement
- Prepares Blue Sky and Legal Investment Memoranda





Rating Agency

Rating Agency: An independent service that provides a credit quality evaluation of bonds and notes. Standard & Poor's and Moody's are common for school district credit ratings.

Duties:

- Reviews four broad factors to determine rating:
 - The financial strength of the Issuer
 - The economic health of the community (commercial, industrial, residential)
 - Managerial and governance practices
 - Debt position – direct and overlapping debt, overall debt to wealth position
- Interviews Issuer, others
- Assigns a letter rating to bonds



Rating Analyst



Ratings



Purpose of Ratings:

- ◆ To help investors assess the issuer's ability to repay the bonds
- ◆ Provide independent, trusted, consistent and comparable information/evaluation
- ◆ Allows comparison among credits



NOT a substitute for full disclosure by the Issuer, or due diligence by the investor



What are they looking for?

 Repayment source

 ABILITY TO REPAY

- ◆ GOBs – Taxbase, economics of region
- ◆ COPs – Identified source? GF of District?
- ◆ TRANs – Tax revenues, coverage

 Debt Structure:

- ◆ Legally sound
- ◆ Reasonable repayment structure

 Other Debt:

- ◆ Debt ratios
- ◆ Other “overlapping” debt



Differentiating among similar credits

District Finances

- ◆ Flexibility – class sizes, other funds
- ◆ Fund Balances
- ◆ Budget management

Projects to be Financed

- ◆ Essentiality
- ◆ Ability to complete projects

District management

- ◆ Community relations
- ◆ Labor relations
- ◆ Stability & Experience of Administration, Board



Credit Review Process

Credit Strategy

Historical Ratings

Which rating agencies

Underlying Ratings

Will you seek credit enhancement

Credit Profile/Story

Credit Presentation

**The Road Show or Tour
(Show/See & Tell)**

Credit Strengths

The Presentation Team

The Presentation Book

Credit Result

Negotiating for the best possible rating

The legal structure –where are you flexible and where can you give

Getting your rating

Do you like it and want to use it

What lessons have you learned



Description of Bond Ratings

Moody's	Standard & Poor's	Description
<u>High Grade</u>		
Aaa	AAA	The highest rating assigned to a debt instrument, indicating an extremely strong capacity to pay principal and interest. Bonds in this category are often referred to as "gilt-edge" securities.
Aa1	AA+	High-quality bonds by all standards with strong capacity to pay principal and interest and are judged to be of high quality by all standards. These bonds are rated lower primarily because the margins of protection are less strong than those for Aaa and AAA.
Aa2	AA	
Aa3	AA-	
<u>Medium Investment Grade</u>		
A1	A+	These bonds possess many favorable investment attributes, but elements that suggest a susceptibility to impairment given adverse economic changes may be present.
A2	A	
A3	A-	
Baa1	BBB+	Bonds are regarded as having adequate capacity to pay principal and interest, but certain protective elements may be lacking in the event of adverse economic conditions that could lead to a weakened capacity for payment.
Baa2	BBB	
Baa3	BBB-	
<u>Speculative</u>		
Ba1	BB+	Bonds regarded as having only moderate protection of principal and interest payments during both good and bad times.
Ba2	BB	
Ba3	BB-	
B1	B+	Bonds that generally lack characteristics of other desirable investments and have greater vulnerability to default. Assurance of interest and principal payments over any long period of time may be small.
B2	B	
B3	B-	